

MEMORANDUM



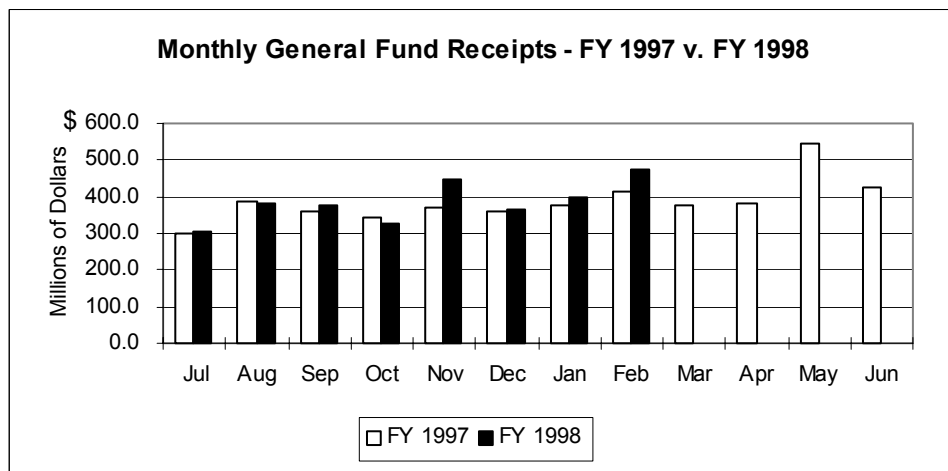
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: March 2, 1998

General Fund Receipts Through February 28, 1998

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.785 billion) set by the Revenue Estimating Conference (REC) on November 20, 1997. The estimate represents an increase of \$137.1 million (2.9%) compared to FY 1997. The current FY 1998 REC estimate includes the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35) as well as all bills passed during the 1997 Legislative Session.

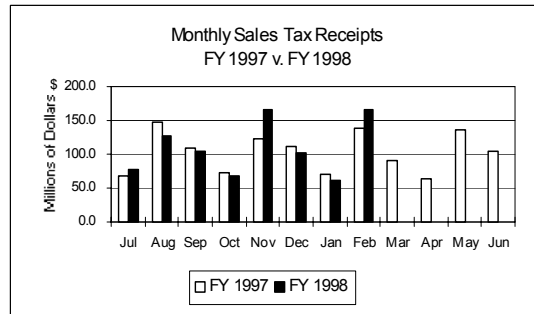
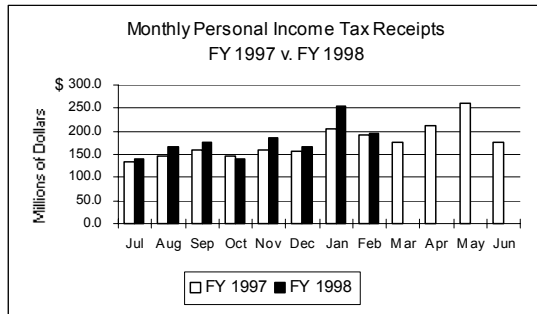


February 1998 Compared to February 1997

Total General Fund receipts collected in February were 13.5% higher compared to February 1997. Special tax receipts showed an increase of 10.7%. Personal income tax receipts increased 0.7%. Sales tax receipts were 20.0% higher than February 1997. Use tax receipts increased 10.9%, and corporate income tax receipts were 3.0% lower than February 1997. Adjusting for sales tax timing effects, overall General Fund receipts collected in February would be 9.6% higher compared to February 1997 instead of the 13.5% figure cited previously.

FY 1998 Compared to FY 1997

Year-to-date revenue growth increased by \$160.2 million (5.5%) compared to FY 1997. This is above the current REC annual estimate of 2.9% for FY 1998. Lower than expected year-to-date revenue growth for sales tax 3.4% v. 5.1% as set by the November REC) has been offset by strong year-to-date growth in personal income tax and use tax.



Gross personal income tax revenues received in February were \$1.3 million (0.7%) higher than February 1997. Year-to-date receipts continue to be strong, with an increase of 9.9% compared to the FY 1997 amount. The primary cause of growth in personal income tax receipts is withholding payments, which are \$82.8 million (7.6%) greater than FY 1997. Although year-to-date withholding payments continue to exhibit strong growth, the effect of the 10.0% income tax cut has begun to be seen in both withholding and overall income tax receipts. The February growth (1.9%) is the second lowest amount this year, with only the month of October showing lower percentage growth. It is expected that withholding receipt growth will be moderate throughout the remainder of the year.

Estimate payments showed moderate dollar growth in February, posting a gain of \$2.5 million (20.3%) compared to February 1997. Year-to-date growth in estimate payments stands at \$52.7 million (26.9%), primarily due to exceptionally strong January growth of \$41.8 million (57.2%). Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change. The majority of growth in year-to-date estimate payments was included in the November REC estimate.

The REC FY 1998 income tax estimate of \$2.232 billion represents a projected increase of 5.2% compared to FY 1997. As stated earlier, this estimate includes the 10.0% income tax reduction.

Sales tax receipts in February exceeded last year's level by \$27.6 million (20.0%). Approximately \$16.3 million of the growth is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Total year-to-date receipts are \$28.3 million (3.4%) above last year's level. The current REC estimate for FY 1998 sales tax receipts is \$1.300 billion, which represents an increase of 5.2% compared to FY 1997.

Corporate income tax receipts in February were \$364,000 (3.0%) lower than February 1997. Significantly lower estimate payments are the primary cause of lackluster growth, being \$15.1 million (10.3%) less than FY 1997. Year-to-date corporate income tax receipts are \$20.9 million (11.9%) lower than FY 1997.

The November REC projected FY 1998 corporate income tax receipts would total \$300.0 million, a decrease of \$18.8 million (5.9%) compared to FY 1997.

Racing and gaming receipts reached their statutory cap of \$60.0 million in January 1998. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because the receipts have

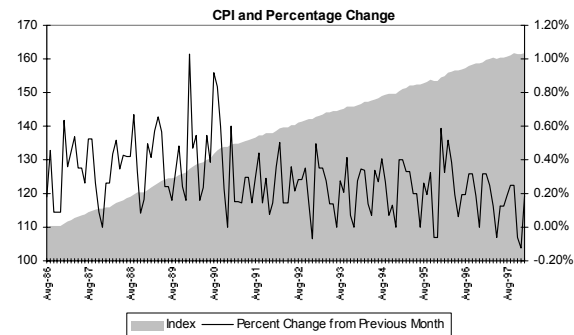
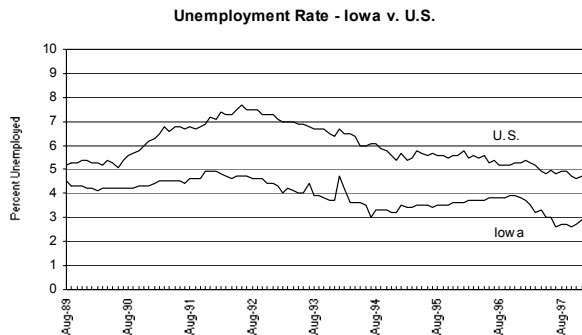
exceeded the \$60.0 million threshold. The November REC estimated that \$72.6 million from this source would be deposited to the Infrastructure Account in FY 1998.

Institutional payments in February were \$3.1 million (30.1%) lower than February 1997. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

Status of the Economy

The seasonally adjusted percent unemployed for the State decreased from the revised 2.9% rate in December to 2.8% in January. The unemployment rate a year ago was 3.7%. Iowa's total January employment registered 1,545,400, up from December's level of 1,535,700 but lower than the March 1997 record high of 1,574,200. The number of unemployed persons in Iowa stood at 44,400 in January, up slightly since the October record low of 41,600 and up from the December total of 46,000. The U.S. unemployment rate in January remained unchanged from December's level of 4.7%.

Consumer prices in January increased 0.2%. The Consumer Price Index (CPI-U) through January 1997 was 161.6 (1983=100), which is 1.6% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through January 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1997, through February 28, 1998, in millions of dollars						FY 97 Actual Compared to FY 98 REC Estimate			
	FY 1997		FY 1998		Year to Date	February	Actual	Estimate	% CHANGE
	\$		\$		% CHANGE	% CHANGE	FY 1997	FY 1998	% CHANGE
Personal Income Tax	1,299.0		1,427.6		9.9%	0.7%	\$ 2,123.1	\$ 2,232.9	5.2%
Sales Tax	841.8		870.2		3.4%	20.0%	1,237.4	1,300.0	5.1%
Use Tax	155.5		171.6		10.4%	10.9%	223.1	245.0	9.8%
Corporate Income Tax	175.5		154.6		-11.9%	-3.0%	318.8	300.0	-5.9%
Inheritance Tax	70.9		78.7		11.0%	88.9%	109.3	97.2	-11.1%
Insurance Premium Tax	9.2		13.2		43.5%	37.4%	106.0	110.0	3.8%
Cigarette Tax	62.9		62.2		-1.1%	4.3%	94.6	97.0	2.6%
Tobacco Tax	3.8		4.1		7.9%	0.0%	5.7	5.7	-0.2%
Beer Tax	8.6		8.6		0.0%	-10.0%	12.5	12.5	0.2%
Franchise Tax	18.1		20.0		10.5%	-20.0%	35.6	35.6	-0.1%
Miscellaneous Tax	1.4		1.8		28.6%	-137.5%	1.2	1.0	-16.0%
Total Special Taxes	\$ 2,646.7		\$ 2,812.6		6.3%	10.7%	\$ 4,267.3	\$ 4,436.9	4.0%
Institutional Payments									
Liquor Transfers:	69.6		46.2		-33.6%	-30.1%	104.3	73.1	-29.9%
Profits	19.0		19.0		0.0%	0.0%	28.8	30.0	4.2%
7% Gross Revenue	6.0		6.0		0.0%	0.0%	9.0	9.0	0.0%
Interest	9.9		17.9		80.8%	433.3%	18.0	20.0	11.4%
Fees	42.6		42.0		-1.4%	3.6%	63.6	64.8	1.9%
Judicial Revenue	24.3		25.9		6.6%	7.1%	42.9	43.9	2.2%
Miscellaneous Receipts	38.9		47.3		21.6%	1107.1%	54.0	47.3	-12.3%
Racing and Gaming Receipt	59.7		60.0		0.5%	n/m	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 2,916.7		\$ 3,076.9		5.5%	13.5%	\$ 4,647.9	\$ 4,785.0	2.9%